

Membership Corporation (NCEMC) have co-invested with Carolina Power & Light (CP&L) and Duke in major generating assets.

Stranded costs in North Carolina are primarily the result of investments in large, expensive generating assets that were made during the 1970s and 1980s when the forecasted growth rate in electricity usage was much larger than it is now. Electricity growth rates in the 1950s and 1960s were also large, but the fixed costs associated with the generating assets brought into service during these time periods are essentially recovered now, so they are not a major contributor to stranded costs. The other key contributors to stranded costs are the continuing commitments associated with existing generation assets, particularly nuclear generation, and with obligations undertaken to protect customers from major cost disturbances. Unrecovered costs associated with purchases of “above-market” power from IPPs and NUGs and with social and conservation programs are not major contributors to stranded costs in North Carolina.

The most direct way to estimate stranded costs is the market valuation approach. This approach relies primarily on data from utility sales of generation assets and purchased power contracts. At the time the data were collected for this study, there were few asset sales of this type in the U.S. As time passes, however, more sales have transpired and the market valuation approach has more data to rely upon.

Two categories of methodologies can be used to estimate stranded costs: “top-down” and “bottom-up” methodologies. The “top-down” category includes straightforward methods with simple data requirements that reflect the traditional